

REPORT ON EXAMINATION

OF THE

**MIDWEST EMPLOYERS
CASUALTY COMPANY**

AS OF

DECEMBER 31, 2006

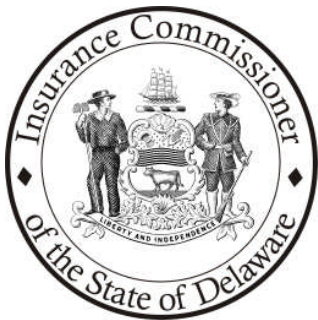
I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2006 of the

MIDWEST EMPLOYERS CASUALTY COMPANY

is a true and correct copy of the document filed with this Department.

ATTEST BY: Antoinette Handy

DATE: 24 JUNE 2008



In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 24TH DAY OF JUNE 2008.

Matthew Denn
Insurance Commissioner

REPORT ON EXAMINATION
OF THE
MIDWEST EMPLOYERS CASUALTY COMPANY
AS OF
December 31, 2006

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Matt Denn", written over a horizontal line.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 24TH Day of JUNE 2008.

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SALUTATION

June 25, 2008

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Chairman, Financial Condition (E)
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Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 06-004A, dated January 26, 2006, an examination has been made of the affairs, financial condition and management of the

MIDWEST EMPLOYERS CASUALTY COMPANY

hereinafter referred to as "Company" or "MECC" and incorporated under the laws of the State of Delaware as a stock company with its home office located at 103 Foulk Road, Suite 202, Wilmington, Delaware, 19803. The examination was conducted at the main administrative

office of its parent, Berkley Insurance Company, located at 475 Steamboat Road, Greenwich, CT 06830.

The report of such examination is submitted herewith.

SCOPE OF EXAMINATION

The last examination was conducted as of December 31, 2003. This examination covers the period since that date through December 31, 2006, and consisted of a general review of the Company's business policies and practices, management, any corporate matters incident thereto, a verification and evaluation of assets and determination of liabilities. Transactions subsequent to the latter date were reviewed where deemed necessary.

The format of this report is designed to explain the procedures employed on examination and the text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible officials during the course of the examination.

The general procedures of the examination followed the rules established by the Committee on Financial Condition Examiners Handbook of the National Association of Insurance Commissioners ("NAIC") and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware. In accordance with the aforementioned Handbook, the consulting firm of INS Services, Inc. performed an information systems review.

In addition to items hereinafter incorporated as a part of the written report, the following areas were reviewed and are included in the files of this examination.

Corporate Records
Fidelity Bonds and Other Insurance

Statutory Deposits
Employees' Welfare
All Asset and Liability Items not Mentioned
Subsequent Events

In addition to this examination of the Company, concurrent examinations were performed on the Company's parent and the following affiliates, all Delaware domestic companies:

Berkley Insurance Company (parent)
StarNet Insurance Company
Gemini Insurance Company

Examination reports for the abovementioned companies were filed separately.

HISTORY

The Company was incorporated on March 21, 1986, under the laws of the State of Ohio and began business on July 1st of the same year.

On November 8, 1995, W.R. Berkley Corporation, the ultimate parent company, located in Greenwich, Connecticut, acquired MECC, Inc., the former holding company previously owned by several private and institutional investors, for the purpose of adding a significant component to its Alternative Markets Division.

Ownership of the Company was transferred to Berkley Insurance Company, formerly known as Signet Star Reinsurance Company, on March 30, 2000. On July 31, 2001, the Delaware Department of Insurance approved the re-domestication of Midwest Employers Casualty Company to the State of Delaware.

CAPITALIZATION

Capital Stock

The Certification of Incorporation provides that the Company is authorized to issue 750 shares of common capital stock having a par value of \$33,000 per share, of which 107

authorized shares are issued and outstanding and owned by Berkley Insurance Company. The Company has no preferred stock outstanding.

Dividends to Stockholder

An ordinary dividend of \$11,500,000 was declared and authorized by the Company's Board of Directors on August 1, 2006, and was paid to Berkley Insurance Company on August 14, 2006.

The following is a reconciliation of capital and surplus for the period under examination:

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Surplus as regards policyholders, December 31, prior year	<u>\$100,537,533</u>	<u>\$112,388,142</u>	<u>\$119,984,942</u>
Net Income	6,269,569	4,444,555	3,127,570
Change in net unrealized capital gains (losses)	4,807,897	5,417,284	5,319,301
Change in net deferred income tax	(720,185)	1,024,224	1,597,719
Change in nonadmitted assets	326,927	(1,729,739)	(846,939)
Change in provision for reinsurance	1,166,401	(1,559,524)	3,214,373
Dividends to stockholders	0	0	(11,500,000)
Change in surplus as regards policyholders, current year	<u>\$11,850,609</u>	<u>\$7,596,800</u>	<u>\$912,024</u>
Surplus as regards policyholders, current year	<u>\$112,388,142</u>	<u>\$119,984,942</u>	<u>\$120,896,966</u>

MANAGEMENT AND CONTROL

Board of Directors

The amended bylaws state that the affairs of the Company shall be managed by its Board of Directors consisting of not less than five or more than 21 directors. Directors are elected at the annual meeting of the stockholder and each director serves for the term of one year until the next annual election and until their successors are elected and qualified. Interim vacancies may be filled by a majority of the remaining directors through less than a quorum provided however; the stockholders removing any director may at the same meeting fill the vacancy caused by such

removal, and provided further, that if the directors fail to fill any such vacancy, the stockholders may at any special meeting fill such vacancy. A majority of the Board of Directors at any time in office shall constitute a quorum.

The Board of Directors shall hold an annual meeting for the purpose of organization and the transaction of any business immediately after the annual meeting of the stockholders, provided a quorum is present. Special meetings of the Board of Directors may be called by the Chairman of the Board or by the President.

Members of the Board of Directors, duly elected in accordance with the Company's bylaws and serving as of December 31, 2006 were as follows:

Director

Primary Business Affiliation

Eugene George Ballard	Chief Financial Officer and Treasurer W.R. Berkley Corporation
William Robert Berkley	Chairman and Chief Executive Officer W.R. Berkley Corporation
Ira Seth Lederman	General Counsel and Secretary W.R. Berkley Corporation
Steven Joseph Link	Executive Vice President Midwest Employers Casualty Company
Melodee Jane Saunders	President and Chief Operating Officer Midwest Employers Casualty Company
Robert Daly Stone	Senior Vice President W.R. Berkley Corporation

Committees of the Board of Directors

The following were members of the Business Ethics Committee that served as of December 31, 2006.

Melodee Jane Saunders
Peter William Shaw
Thomas Dale Vonderheid

Officers

The bylaws provide that the officers of the Company may be a Chairman of the Board, a Vice-Chairman of the Board, a President, one or more Vice-Presidents, a Secretary, a Treasurer, one or more Assistant Secretaries or Assistant Treasurers, and such other officers and the Board of Directors may appoint assistant officers.

The Company's principal officers and their respective titles as of December 31, 2006 were as follows:

<u>Name</u>	<u>Title</u>
Melodee Jane Saunders	President and Chief Operating Officer
Peter William Shaw	Chief Financial Officer and Treasurer
Donna Lee Knowling	Senior Vice President and Secretary
Steven Joseph Link	Executive Vice President
Robert Hyrum Burgoyne, II	Vice President
Edward David Campbell	Assistant Vice President
Linda Marie Howell	Assistant Vice President

Notification of Change of Directors and Officers

There were seven changes, both new elections and resignations in directors or principal officers that were not reported to the Delaware Insurance Commissioner during the period of January 1, 2004 to December 31, 2006. 18 Del.C. §4919, "Notice of change of directors or officers" states "Every domestic stock or mutual insurer shall promptly notify the Commissioner in writing of any change of personnel among its directors or principal officers."

Therefore,

It is recommended that the Company comply with 18 Del.C. § 4919 and promptly notify the Commissioner in writing of any change of personnel among its directors or principal officers.

Lack of Board of Directors' Approvals of Transactions

The Board of Directors did not approve reinsurance and underwriting management agreements that were entered into with two different affiliates on January 1, 2005.

Therefore,

It is recommended that the Company's Board of Directors approve all inter-company agreements as required.

Conflict of Interest Policy

The ultimate parent company, W.R. Berkley Corporation, maintains a formal written Statement of Business Ethics for conflict of interest and business conduct procedures for its subsidiaries. The Statement requires its personnel to submit certificate of compliance forms on at least an annual basis.

HOLDING COMPANY SYSTEM AND AFFILIATED TRANSACTIONS

The Company is a member of an insurance holding company system and is a wholly owned subsidiary of Berkley Insurance Company, a Delaware domiciled reinsurance company, that in turn is wholly owned by Signet Star Holdings, Inc., a Delaware holding company that is wholly owned by the ultimate parent, W.R. Berkley Corporation (WRBC), domiciled in the State of Delaware.

WRBC, founded in 1967, is an insurance holding company that is among the largest commercial lines writers in the United States and operates in five segments of the property and casualty insurance business that include specialty insurance, regional property and casualty

insurance, alternative markets, reinsurance and international. WRBC has offices throughout the United States, as well as producing business in Europe, South America and the Philippines.

As stated in its 2006 annual report, WRBC had assets of \$15.6 billion and stockholders' equity of \$3.3 billion.

The following organizational chart reflects the identities and interrelationships between the primary subsidiaries of the W. R. Berkley Corporation that are part of the holding company system as of December 31, 2006:

	Percentage owned by Berkley (1)
W. R. Berkley Corporation	
Berkley International, LLC (2)	100%
Berkley Surety Group, Inc.	100%
Carolina Casualty Insurance Company (FL)	100%
Clermont Specialty Managers, Ltd	100%
Greenwich Knight Insurance Company, Ltd.	100%
J/I Holding Corporation	100%
Admiral Insurance Company (DE)	100%
Admiral Indemnity Company (DE)	100%
Berkley London Holdings, Inc. (3)	100%
W.R. Berkley London Finance, Limited	80%
W.R. Berkley London Holdings, Limited	80%
W.R. Berkley Insurance (Europe), Limited	100%
Berkley Risk Administrators Company, LLC	100%
Clermont Insurance Company (IA)	100%
Nautilus Insurance Company (AZ)	100%
Great Divide Insurance Company (AZ)	100%
Key Risk Management Services, Inc.	100%
Monitor Liability Managers, Inc.	100%
Queen's Island Insurance Company, Ltd	100%
Signet Star Holdings, Inc.	100%
Berkley Insurance Company (DE)	100%
Berkley Regional Insurance Company (DE)	100%
Acadia Insurance Company (ME)	100%
Berkley Regional Specialty Insurance Company (DE)	100%
Continental Western Insurance Company (IA)	100%
Firemen's Insurance Company of Washington, D.C. (DE)	100%
Tri-State Insurance Company of Minnesota (MN)	100%
Union Insurance Company (IA)	100%

Union Standard Insurance Company (OK)	100%
Gemini Insurance Company (DE)	100%
Key Risk Insurance Company (NC)	100%
Midwest Employers Casualty Company (DE)	100%
Preferred Employers Insurance Company (CA)	100%
Riverport Insurance Company (CA)	100%
Signet Star Re, LLC	100%
StarNet Insurance Company (DE)	100%
Facultative ReSources, Inc.	100%

- 1 W.R. Berkley Corporation is the ultimate parent. The subsidiary of a direct parent is indicated by indentation, and its percentage ownership is as indicated in this column.
- 2 Owned by W.R. Berkley Corporation and its subsidiaries as follows: W.R. Berkley Corporation (2%), Admiral Insurance Company (35%), Berkley Insurance Company (35%), Berkley Regional Insurance Company (14%), and Nautilus Insurance Company (14%).
- 3 Owned by Admiral Insurance Company (66.67%) and Berkley Insurance Company (33.33%).

During the period under examination, Holding Company Registration Statements were filed with the Delaware Insurance Department that included intercompany agreements and transactions as required with the provisions of Regulation 1801 of 18 Del.C.

TERRITORY AND PLAN OF OPERATION

Territory

The Company is authorized to transact the business of insurance in all 50 states and the District of Columbia.

The principal office facilities of the Company are located in Chesterfield, Missouri.

Plan of Operation

The Company specializes in writing excess workers' compensation and employers' liability coverages on a specific and aggregate basis to qualified self-insured employers. MECC also offers excess reinsurance to qualified insurance companies and captives, who have similar

qualities as the targeted individual and group self-insured accounts. On a limited basis, MECC offers related surety coverage in the form of a self-insured bond to the governing workers' compensation authority in the insured's domiciliary state. Business is marketed to individual self-insureds and self-insured groups, principally targeting school districts, municipal governments, health care providers, retailers and light manufacturing. MECC's aggregate policy is usually written on a combined basis with a specific retention.

The Company's direct business is developed through approximately 440 independent agencies and the Company also utilizes approximately 50 brokers who are wholesalers that place business for retail agents.

Approximately 88% of the Company's direct premiums written of \$276,247,835 and reinsurance assumed of \$57,269,052 netting to \$333,516,887 was ceded to affiliates and non-affiliates that totaled \$292,548,781 with Berkley Insurance Company, its immediate parent company, assuming approximately 94% of the total ceded amount.

The Company plans to continue to focus on its core product line, excess workers' compensation, serving Individual Self-Insurance, Group Self-Insurance and reinsurers that cede business.

GROWTH OF THE COMPANY

The following information was extracted from the Company's filed Annual Statements and shows the growth of the Company since the last examination as of December 31, 2003.

<u>Year</u>	<u>Net Admitted Assets</u>	<u>Surplus as Regards Policyholders</u>	<u>Gross Premiums Written *</u>	<u>Net Premiums Written</u>	<u>Net Income</u>
2006	\$298,751,782	\$120,896,965	\$333,516,886	\$40,968,106	\$3,127,570
2005	194,417,362	119,984,942	326,547,323	0	4,444,555
2004	227,301,111	112,388,141	280,096,782	0	6,269,569
2003	175,205,859	100,537,533	228,879,402	0	3,081,963

* Direct premiums written and reinsurance assumed.

Due to the 100% quota share agreement with Berkley, gross written premiums increased steadily throughout the examination period. However, also due to the 100% (changed to 90% by amendment in 2006) quota share reinsurance agreement with Berkley, the increase in gross written premiums had a minimal effect on net income and surplus as regards policyholders. The Company received approximately \$94.5 million from Berkley in May of 2006, as compensation for the change in the quota share agreement from 100% to 90%. This accounted for most of the increase in net admitted assets in 2006.

REINSURANCE

For 2006, the Company reported the following distribution of premiums written:

Direct business	\$276,247,835
Reinsurance assumed from affiliates	252,000
Reinsurance assumed from non-affiliates	<u>57,017,052</u>
Gross premiums written	<u>333,516,887</u>
Reinsurance ceded to affiliates	280,236,711
Reinsurance ceded to non-affiliates	<u>12,312,070</u>
Total ceded	<u>292,548,781</u>
Net premiums written	<u>\$ 40,968,106</u>

Assumed

The Company accepts specific excess workers' compensation cessions from various non-affiliated insurers, and one affiliate, Key Risk Insurance Company.

Ceded

Effective April 1, 2000, the Company entered into a 100% quota share agreement with its parent Berkley Insurance Company under which the Company ceded 100% of the net liabilities arising under the policies, contracts and binders of insurance or reinsurance in-force at the

effective date or issued after that date and classified as property casualty insurance business by the Company. Effective January 1, 2006, the agreement was amended retroactively decreasing the reinsurance percentage to 90%. Premiums ceded to non-affiliates were minor in nature and generally provided catastrophic loss protection to the Company.

INTERCOMPANY AGREEMENTS

The Company participated in the following inter-company management and service agreements that were in effect as of December 31, 2006:

Tax Allocation Agreement

Effective November 8, 1995, MECC and W. R. Berkley (WRBC) entered into a tax allocation agreement whereby the Company is a member of an affiliated group of corporations of which WRBC, directly or indirectly, is the common parent that files consolidated federal income tax returns for the participating member companies.

The tax liability is allocated among affiliates in the ratio that each affiliate's separate return tax liability bears to the sum of the separate return tax liabilities of all affiliates that are members of the WRBC Group. Estimated payments are made by the respective affiliates to WRBC, and if such member is entitled to a credit, WRBC will account for such amount in the same way as if a credit or a claim for a refund was made directly by an affiliate with the Internal Revenue Service.

Investment Advisory Agreement

Effective November 9, 1995, MECC entered into an investment advisory agreement whereby Berkley Dean and Company, Inc. (Berkley Dean) will provide certain advisory and management services based upon criteria, standards and guidelines of the Company. MECC has

ultimate and final authority over decisions and policies on purchases and sales of securities. Berkley Dean receives .25% of 1% of the first \$10,000,000 and .20% of 1% thereafter, of the net asset value of the portfolio at the end of each quarter which is when fee payments are due. Either party may terminate the agreement at any time with at least 90 days written notice prior to each anniversary of the agreement.

Underwriting Management Agreements

Effective January 1, 2005 and last amended January 1, 2006, MECC entered into an agreement with Berkley Specialty Underwriting Managers, LLC (BSUM) to act as a manager for producing, underwriting and servicing, on the Company's behalf, commercial property and casualty lines of business including fire, allied lines, commercial multiple peril, commercial inland marine, commercial general liability, commercial auto and coverage for miscellaneous services and classes in the State of California. The Company compensates its manager for the actual costs of services provided to the Company by the manager. Services performed by BSUM are subject to the guidelines of the Company and include such functions as the following:

- Acceptance and declination of risks
- Cancellation and amendment of contracts of insurance
- Collection and payment of premiums and return premiums
- Rejection, adjustment, compromise and payment of loss and loss expenses
- Recovery of losses and expenses from its reinsurers, if any
- Payment of all applicable taxes and fees imposed by any government or agency other than premium taxes
- Payment of all dues and all other expenses connected with the business written

Settlement of payments by the manager to the Company shall be no more than 30 days, upon receipt of premium. Settlement of payments by the Company to the manager shall be within 30 days or receipt of the statement of account, unless the parties agree otherwise. The manager shall forward the statement of account to the Company on a calendar quarterly basis in

such form and detail as mutually agreed, however not later than 30 days after the close of each quarter. Business produced under this agreement in 2006 was immaterial.

Claim Service Agreements

As of December 31, 2006, the Company had several agreements in effect with various affiliates covering the servicing of workers' compensation claims, which were reviewed in prior examinations. No additional claims service agreements were executed during the current examination period.

ACCOUNTS AND RECORDS

Information Systems Controls Evaluation

A high-level assessment of the internal control structure and process for the Company's accounting computer systems was discussed with management and reviewed after completion of questionnaires developed by the NAIC and the Delaware Department of Insurance. The discussions and review did not reveal any material deficiencies in the internal control structure of the Company.

Accounting System

All necessary accounting records of the Company are maintained on electronic data processing equipment. The Company's database was tested as part of Delaware examination procedures.

Independent Accountants

The Company's financial statements are audited each year by the firm of KPMG LLP, ("KPMG") of New York, New York. KPMG issued an unqualified opinion of the audited statutory financial statements for all years' examinations. The workpapers prepared by KPMG in connection with the annual audit were reviewed and relied upon to the extent possible.

FINANCIAL STATEMENTS

The following pages contain a statement of assets, liabilities, surplus and other funds as of December 31, 2006, as determined by this examination, along with supporting exhibits as detailed below:

Assets
Liabilities, Surplus and Other Funds
Statement of Income

Individual dollar differences were due to rounding.

Assets
As of December 31, 2006

	Ledger Assets	Non-Admitted Assets	Net Admitted Assets	Notes
Bonds	\$ 190,226,711		\$ 190,226,711	1
Stocks:				
Preferred	8,293,095		8,293,095	
Common	34,515,646		34,515,646	
Cash, cash equivalents, and short-term investments	(1,164,622)		(1,164,622)	
Other invested assets	834,764	834,764	-	
Investment income due and accrued	2,299,166		2,299,166	
Premiums in course of collections	18,304,283	2,351,137	15,953,146	2
Premiums booked but deferred and not yet due	40,683,036		40,683,036	2
Amounts recoverable from reinsurance	629,430		629,430	
Net deferred tax asset	3,469,849	1,144,863	2,324,986	
Guaranty funds receivable or on deposit	1,229,645		1,229,645	
Electronic data processing equipment and software	1,321,532	1,064,670	256,862	
Furniture and equipment	839,976	839,976	0	
Receivable from parent, subsidiaries and affiliates	770,687		770,687	
Aggregate write-ins for other than invested assets:	-		-	
Other assets	2,733,994		2,733,994	
Prepaid assets	71,596	71,596	0	
Total Assets	<u>\$ 305,058,788</u>	<u>\$ 6,307,006</u>	<u>\$ 298,751,782</u>	

Liabilities, Surplus and Other Funds
As of December 31, 2006

		Notes
Losses	\$ 105,069,897	3
Loss adjustment expenses	1,914,258	3
Contingent commissions	1,414,042	
Other expenses	5,126,960	
Taxes, licenses and fees	5,158,337	
Current federal and foreign income taxes	1,139,732	
Unearned premiums	9,318,543	
Ceded reinsurance premiums payable	32,080,788	
Funds held under reinsurance treaties	5,349,253	
Amounts withheld by company for account of others	4,591,007	
Remittances and items not allocated	53,172	
Provision for reinsurance	829,384	
Payable to parent, subsidiaries and affiliates	651,357	
Retroactive reinsurance	5,158,086	
Total Liabilities	<u>\$ 177,854,816</u>	
Common capital stock	\$ 3,531,000	
Gross paid-in and contributed surplus	40,403,244	
Unassigned funds (surplus)	<u>76,962,721</u>	
Surplus as regards policyholders	<u>\$ 120,896,965</u>	
Totals	<u><u>\$ 298,751,781</u></u>	

**Statement of Income
As of December 31, 2006**

UNDERWRITING INCOME

Premiums earned	\$	31,649,563
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DEDUCTIONS

Losses incurred	\$	25,002,081
Loss expenses incurred		527,866
Other underwriting expenses incurred		8,671,772
Miscellaneous other (income) / loss		-
Total underwriting deductions	\$	34,201,719
Net underwriting gain or (loss)	\$	(2,552,156)

INVESTMENT INCOME

Net investment income earned	\$	7,386,336
Net realized capital gains or (losses)		(35,526)
Net investment gain or (loss)	\$	7,350,810

OTHER INCOME

Net gain (loss) from premium or agents' balances charged off	\$	(28,518)
Loss on retroactive reinsurance		(7,991)
Total other income	\$	(36,509)
Net income before dividends to policyholders and before federal income taxes	\$	4,762,145
Dividends to policyholders		0
Net income after dividends to policyholder but before federal income taxes	\$	4,762,145
Federal and foreign income taxes incurred		1,634,575
Net income	\$	3,127,570

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2005	\$	119,984,942
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GAINS AND (LOSSES) IN SURPLUS

Net income	\$	3,127,570
Net unrealized capital gains or (losses)		5,319,301
Change in net deferred income tax		1,597,719
Change in non-admitted assets		(846,939)
Change in provision for reinsurance		3,214,373
Dividends to stockholders		(11,500,000)
Change in surplus as regards policyholders for the year	\$	912,024
Surplus as regards policyholder, December 31, 2006	\$	120,896,966

EXAMINATION FINANCIAL CHANGES

No financial changes were made as a result of this examination.

NOTES TO FINANCIAL STATEMENTS

Note 1 - Bonds

\$190,226,711

Bonds, comprising 63.67% of total admitted assets, were determined to be the same amount as reported by the Company in its Annual Statement. In addition, 100.0% of the bonds were rated Class 2 or higher by the NAIC Securities Valuations Office.

Note 2 – Uncollected Premiums and Agents Balances in Course of Collection **\$15,953,146** **Premiums and agents balances deferred and not yet due** **\$40,683,036**

Premiums and considerations of \$56,636,182 comprising 18.96% of total admitted assets were determined to be the same amount as reported by the Company in its Annual Statement.

Note 3 – Losses

\$105,069,897

Loss Adjustment Expenses

\$ 1,914,258

INS Consultants, Inc. (INS) was retained by the Delaware Insurance Department to conduct a review of the Company's reserve methodologies and adequacy. Based on their review, the Company's reported total loss and loss adjustment expense reserves at December 31, 2006 of \$106,984,155 were properly stated. INS's analysis is net of reinsurance and does not address the collectability of reinsurance recoverables.

The underlying data was tested through a review of open and paid claim files and actual payments made, with no exceptions noted. The aggregated actuarial data provided by the Company was verified and balanced to Schedule P of the Company's filed Annual Statement.

COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS

The Company has fully complied with the prior report recommendations.

SUMMARY OF RECOMMENDATIONS

It is recommended that the Company comply with 18 Del. §4919. (See Management and Control: Notification of Change of Directors and Officers, page 6)

It is recommended that the Company's Board of Directors approve all intercompany agreements as required. (See Management and Control: Lack of Board of Directors Approvals of Transactions, page 7)

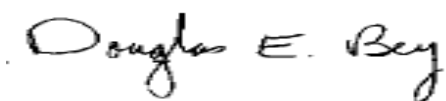
CONCLUSION

The following schedule shows the results of this and the prior examination with changes during the three-year period:

<u>Description</u>	<u>December 31 2003,</u>	<u>December 31, 2006</u>	<u>Difference</u>
Assets	\$175,205,859	\$298,751,782	\$123,545,923
Liabilities	74,668,326	177,854,816	103,186,490
Capital and Surplus	100,537,533	120,896,965	20,359,432

The assistance of Delaware's consulting firms, INS Consultants, Inc., and INS Services, Inc. is acknowledged.

Respectfully submitted,



Douglas E. Bey, CFE
Examiner-In-Charge
State of Delaware
Northeastern Zone, NAIC